NATIONAL ASSOCIATION OF GOVERNMENT EMPLOYEES

AFFILIATED WITH SERVICE EMPLOYEES INTERNATIONAL UNION, AFL/CIO

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TESTIMONY OF THE

NATIONAL ASSOCIATION OF GOVERNMENT EMPLOYEES

TO THE

HOUSE POST OFFICE AND CIVIL SERVICE COMMITTEE

REGARDING

SUPPLEMENTAL RETIREMENT PLAN FOR

POST 1983 EMPLOYEES

October 23, 1985

The National Association of Government Employees is an affilliate of the Service Employees International Union (AFL-CIO). We are pleased to have this opportunity to appear today and present our views on the outline of a supplemental retirement plan for federal employees covered under Social Security proposed by Chairman Ford, and Chairwoman Oakar.

The design of a retirement system for employees covered under Social Security is a task of historical importance to the Civil Service. The Civil Service Retirement System has been government's most important tool for the recruitment and retention of quality employees. With federal pay and other benefits lagging far behind that commonly recieved in the private sector, it is more important than ever that the pension system available to new hire federal employees be a quality one, comparable to the current CSRS.

The NAGE strongly endorses the outline of the Ford - Oakar proposal. This proposal is fair to federal employees, taxpayers, and is consistent with the traditional goals and objectives of the Civil Service Retirement System. We applaud Chairman Ford and Chairwoman Oakar for their leadership on this key issue.

The Civil Service Supplemental Retirement System (CSSRS) is structured on three tiers composed of social security, a defined benefit, and a thrift plan.

SOCIAL SECURITY

The first tier under Ford / Oakar is Social Security. Employees would contribute to Social Security and recieve it's benefit in accordance with applicable law and regulations. Currently the tax rate for OASDI is 5.7% in 1985, increasing to 6.06% in 1988, and 6.20% beginning in 1990. Employees contribute up to the maximum taxable wage level, which currently is $39,600. Benefits under this portion of Ford / Oakar are determined in accordance with applicable Social Security law. While space doesn't permit documentation of that formula, it is significant to note that social security is in part a social insurance program which redistributes wealth from the high to the low income worker. Thus, for instance, under Social Security if an employee worked 30 years and earned $15,000 annually he would recieve roughly $6,000 in benefits, while an employee earning $30,000 annually during the same period would earn $8200 in benenfits, while an employee earning $45,000 would recieve $8400. A basic decision in designing a pension plan is whether or not to offset the social security tilt. Ford / Oakar is a social security add on plan which does not offset social security.

DEFINED BENEFIT

The second tier of Ford / Oakar is the defined benefit plan. The CSSRS would provide defined benefits of 1% of high three average salary for each year of service. By comparison Stevens / Roth would provide 0.9 percent for the first 15 years of service and 1.1 percent from thereafter, times the high five years of earnings.

Under the CSSRS an employee could retire with full benefits at age 55 following 30 years of service, or at age 60 following 20 years of service, or at age 62 with five years of service. Employees retiring before the age of 62 would receive a supplement equal to the social security benefit which will be paid after the age of 62.

Stevens / Roth, Option A, would establish age 62 as the retirement age with penalties for retiring before age 62 of 2% per year if the individual has served 30 years or more and 5% per year if the individual has served less than 30 years. Under "Option B" employees could retire at age 55 following 30 years of service without a penalty. However neither option would provide employees with a supplement between the ages of 55-62.

In the area of income protection after retirement Ford / Oakar would provide a full COLA based on changes in the consumer price index.

The Stevens / Roth "Option A" would pay no COLA before age 62, CPI-2 in ages 62-66, and full COLA over age 67. Option B would pay CPI-2 between ages 55-62, and full COLA over age 62.

The employees under CSSRS will be required to make contributions to the retirement fund equal to 1.3% up to 1987 then .94% through 1989, and .8% thereafter.

Under Stevens / Roth, Option A, there would be no contributions over and above social security while under option B employees would contribute 7% to the plan minus any contributions made to Social Security.

THRIFT PLAN

The third level of the plan would create a capital accumulation plan. Employees would be permitted to contribute up to 10% of their salaries to the thrift plan. The government would match 50¢ on every dollar up to 6% of salary which the employee contributes.

Option A of Stevens / Roth would allow dollar for dollar matching employer contributions up to 5% of pay. Under Option B the employer would match dollar for dollar on the first 1% of pay, 50¢ on the dollar for the next 2% of pay, and 25¢ on the dollar for the next 3% of pay.

DISABILITY / SURVIVOR

The outline of Ford / Oakar indicates that much needed improvements in disability and survivor benefits will be provided . A disabled employee would be eligible for benefits based on service projected to age 60 or 20 years of service which ever is earlier. Disabled employees not qualifying for social security would receive a supplement to make up for the lack of a social security benefit. A surviving spouse will be eligible to receive 50% of the employee's pension earned at death. This protection can be continued after retirement by accepting a 10% reduction in the basic annuity. Survivor benefits are also paid under CSSRS between when the spouse's youngest child turns age 16, and the spouse reaches age 60, and during the period from age 19 to 22 if the child is in school. These provisions are a substantial improvement over Stevens / Roth.

COST

The cost of a pension plan is arguably the most important decision to be made in the shaping of the retirement plan. Under CSSRS the government's cost will be about 25.5% of salary. This is roughly an additional .5% of salary over the current CSRS cost of 25% salary.

The Steven / Roth bill by comparison costs approximately 21.9% of payroll.

ANALYSIS

The Ford / Oakar proposal would provide a bill which is comparable in value and comparable in costs to that currently provided under the Civil Service Retirement System. This proposal, if enacted, would help government to continue to attract and retain the quality workers needed to complete the government's mission. It is a comprehensive retirement plan which addresses the needs of the governments 2.5 million workforce.

A retirement system should not be drafted in a vacuum. The drafters of this proposal were actutely aware that federal pay and benefits lag for behind those provided in the private sector. Indeed retirement is the one major area where federal employees enjoy an advantage over the private sector according to a 1984 study performed by the Hay / Huggins company. The total compensation package trails the private sector by more than 16%. With a gloom outlook for federal pay on the horizon, the CSSRS wisely retains the competitive status of the retirement plan. In doing so Ford / Oakar keeps faith with the principle of the February 18, 1983 letter signed by Speaker O'Neil, Chairman Ford, and Chairman Rostenkowski which supports the principle that the retirement plan for those employees covered by social security shall provide comparable levels of retirement income to that provided by CSRS.

As mentioned above the cost of Ford / Oakar is 25.5 of salary. This is 5% of salary higher than the cost of the current system. While costing .5% more the benefit levels are comparable to that provided by CSRS. The additional .5% of salary was utilized to redistribute benefits provided by the Social Security tilt.

Ford / Oakar protects workers at all income levels. Stevens / Roth while costing 3.6% less than Ford / Oakar provides significantly less retirement income particularly to lower paid workers unable to fully participate in the thrift plan. Stevens / Roth also effectively removes the option of early retirement following thirty years of service.

It is clear that in order to develop a comparable plan to the current CSRS the cost of the plan is going to have to be roughly approximate. No amount of creativity will create a plan costing 20% of payroll which will provide equivalent benefits to a plan costing 24% of payroll. Ford / Oakar recognizes this principle. The CSSRS is a unified plan which will provide one system of benefits to all covered employees. A unified plan provides less administrative costs, more convenience, and it is easier to explain, and be understood by existing employee. The two options provided by Stevens / Roth are sure to cause confusion and misunderstanding by effected employees. States which have adopted pension plans with options have indicated that this has caused much turmoil in the workforce. An official from the State of Maryland indicated that no matter which option employees elected they were convinced years later it was the wrong choice for them. In a retirement system with over two million active employees their is considerable advantage in a unified plan.

We stongly support provisions in the bill which have the existing fund serve both the current system and the new plan on an integrated basis. This arrangement demontrates a committment to continue the existing Civil Service Retirement Trust Fund on a stable foundation. It is crucial that retirees under the current system be assured that the Trust Fund will continue, on a strong financial basis.

The utilization in the bill of the three tier system is a design which provides maximum flexibility to the pension system. The addition of the thrift plan is an effective means of addressing the social security tilt since a tax deferredsavings plan would be of particular advantage to higher paid employees since they have more cash to participate in a thrift plan, and would also recieve the greatest tax benefit.

A thrift plan also gives greater portability to the retirement system.

While we support the three tier approach, we have always regarded the defined benefit portion of the plan as it's cornerstone. Workers need the certaintly and security which a defined benefit plan provides. Defined contribution plans while allowing for greater portability, shift the risks from the employer to the employee. It is important that a balance be struck between the security of a defined benefit plan, and the portability of the defined contribution plan. The Ford, / Oakar proposal from our perspective strikes a balance between these two options. The proposal ensures a full retireement at age 55 following 30 years of service, ensures that a full COLA will be paid to protect against the effects of inflation in old age, while at the same time providing portability for those employees who will spend less than their full carear with the government. From our perspective Stevens /. Roth placed an over reliance on the thrift plan as a means of providing retirement income. This will benefit higher earning workers to the detriment of lower paid employees. Under Ford / Oakar an employee retiring at age 55 with 30 years of service will replace 64% of his income at retirement. This level of replacement assumes full participation in the thrift plan. Without participation in the thrift plan this employee would replace 50% of income. Under the current system this employee would replace 53% of income. Under Steven / Roth this same employee would replace about 38% of salary with full participation in the thrift plan, but only 24% without participation in the thrift plan. The full COLA protection privided by Ford / Oakar ensures that the rate of income protection remains constant during retirement. Under Stevens / Roth inflation will be allowed to erode retirement income considerably, before the full COLA is provided at age 67.

The NAGE and it's members are committed to continuing the provisions which allow for a dignified retirement at age 55 following thirty years of service. We hence are pleased that Ford / Oakar provide for a supplement between age 55-62 as wellas a full COLA for those eligible for early retirement. To many of our members early retirement is not a luxury but rather a necessity after long years of hard labor. These employees would be severely penalized under Stevens / Roth which provides no supplement between ages 55-62, and a penalty for early retirement.

We also support provisions in the bill providing for employee involvement on the Thrift Board. This is a step toward restoring credibility to the system. There has been too much distortion as to the health and stability of federalemployee retirement systems which has caused widespread confusion and a loss of confidence in the system. Employee involvement in managing the system should aid in arresting some of these distortions, and in ensuring that the investment of these enormous sums of money is done in a prudent manner free of political influence. We also support provisions in the bill mandating that all employees make an equal contribution to the pension system. This provision tends to increase employee awareness of their financial interest in the fund, and binds employees and retirees in a commonality of concern.

We also support provisions in the draft proposal which continue current categories of coverage for hazardous duty employees. Under these provisions federal law enforcement firefighters, air traffic controller are all provided with comparable benefits as are provided by CSRS.

One other group of employees which we believe should be treated as a special category are civilian technicians of the National Guard. Civilian technicians are required as a condition of civilian employment to maintain military membership in the National Gurad. Technicians lose their civilian jobs if at any time they are not re-enlisted for medical or military readiness reasons in the National Guard. Like law enforcement personnel, firefighter, and air traffic controllers technicians are required by statute to retire priorto the normal retirement age. Most technicians are seperated from service through no fault of their own in their early fifties because of military retention requirements. Unlike controllers, firefighters, and law enforcement personnel, civilian technicians are not entitled to a full retirement at the age which the law mandates retirement. The NAGE regards this as an injustice. If the government mandates that a technician shall only be allowed to work at his / her job until age 55 then that should be the age at which a full retirement commences. We thus urge that a special category be created for technicians.

Under Stevens / Roth technicians are particulary hurt by the design of the system and the lack of a social security supplement before the age of 62. Under Stevens / Roth technicians would also receive a 2% reduction per year for each year under the age of 55 at retirement. Thus a technician involuntarily retired at age 53 would recieve, between ages 53-62, only slightly more than 30% of his salary assuming full participation in the thrift plan for twenty seven years. If that employee was unable to participate in the thrift plan he would recieve, between the ages of 53-62, only slightly more than 20% of his salary under Stevens / Roth. The numbers speak for themself. Few families could survive on 20% of a technicians salary for any length of time. Difficulties of mid-life employees finding new work are well documented. This would beparticulary so with technicians many of whom were in military related job specialities not commonly found in private industry. We ask the Chair to consider the special needs of these employees and create a special category to protect their needs.

We would urge the Committee also to make changes in the retirement benefit formula. We support a so called back loaded formula which provides greater weight and benefit to the latter years of an employees service than the first years of service. A forumla which paid .9% for the first ten years and 1.1% for every year thereafter would be such an example. This formula encourages longeverity, and rewards experience. With the addition of social security and a thrift plan portability has been greatly increased. There must be some motivation for workers after they gain experience to stay with the government. With the higher levels of pay provided in the private sector, an extremely portatable retirement plan will encourage high levels of turnover. For the same reasons we also urge that the vesting of the employer's contribution to the thrift plan be phased in over a five year period. These changes would provide some incentive for longevity.

We also urge the Committee to continue provisions in the current CSRS which provides credit for unused sick leave. It has been our experience that providing an incentive to employees to retain sick leave reduces absenteeism significantly. The cost of retaining this provision is we think probably small, and offset by the cost of absenteeism.

Mr. Chairman the Ford / Oakar draft legislation fullfills the major goals which could be reasonably expected for the development of a retirement system. It is comparable in cost and value to the current CSRS. We strongly support the plan, and pledge our full cooperation to work towards it's passage. We applaud the Chairman Ford and Chairwoman Oakar for their leadership on this issue. We thank the Committee for this opportunity to present our views on this important topic.